

BILL # SB 1391

TITLE: telecommunications companies; property tax valuation

SPONSOR: Martin

STATUS: As Amended by Senate COW

PREPARED BY: Hans Olofsson

FISCAL ANALYSIS

Description

Under current statutes, personal property of telecommunications companies valued by the Department of Revenue (DOR) depreciates to 20% of its original cost. This bill, as amended by the Senate Committee of the Whole, would reduce the minimum value (or “valuation floor”) of such property from 20% to 10% for tax year 2008 and further reduce the floor by 2.5% per year until tax year 2011 when it will be set at 2.5%.

SB 1391 would also require DOR to compute the depreciation of telecommunications’ property based on straight line valuation tables.

Estimated Impact

Based on estimates provided by the Department of Revenue (DOR), the bill would have a General Fund cost of up to between \$4.5 million in FY 2009 and \$9.0 million in FY 2012. The bill will reduce statewide net assessed valuation (NAV), which will increase the state’s K-12 education formula cost. That impact, however, could be offset by reducing the cost of automatic school tax rate reductions that are designed to offset higher assessed value. There will be less of a tax rate reduction since the bill will lower the growth in assessed value. The net General Fund cost after accounting for the school tax rate reductions would be between \$700,000 in FY 2009 and \$500,000 in FY 2012.

The cost estimates above are based on the expected amount of NAV that would be foregone under SB 1391, as determined by DOR. Separate NAV estimates provided by industry representatives last year are comparable to those currently provided by DOR. The JLBC Staff does not have an independent means of determining the valuation of these particular properties.

Analysis

Compared to current law, DOR expects that SB 1391 will reduce the NAV of telecommunications property by about \$(124) million in tax year 2008, \$(166) million in tax year 2009, \$(207) million in tax year 2010, and \$(248) million in tax year 2011.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays a percentage (between 36% and 40%) of residential property taxes through the Department of Education’s Homeowner’s Rebate program. By reducing NAV by \$(124) million in tax year 2008, the bill will result in a direct increase of the state share of K-12 funding by \$4.5 million in FY 2009. This impact grows to \$9.0 million by FY 2012. This estimate includes the net impact of both Basic State Aid and the Homeowner’s Rebate.

The NAV reductions under SB 1391 will also generate savings in the cost of the state’s Truth in Taxation (TNT) program. TNT reduces the QTR and county equalization tax rate to offset growth in existing property values. This reduction occurs automatically unless the Legislature decides to forego the TNT adjustment. For FY 2009, the school tax rate is expected to be reduced by 10.5¢ under existing statutes. However, the lower NAV under SB 1391 would result in the tax rate reduction being 0.7¢ less than under current law. The higher QTR under the bill will reduce the net General Fund cost increase from \$4.5 million to \$700,000 in FY 2009, which constitutes a TNT saving of \$(3.8) million.

The proposal will also affect state General Fund revenues. Although the state property tax was repealed in 1996, the General Fund still receives property tax revenues from unorganized districts and school districts that levy the minimum qualifying tax rate. The impact on state revenues could not be determined but is expected to be small.

As noted above, the fiscal impact of this bill depends on whether the TNT impact is included or not. In the absence of a TNT adjustment, it is estimated that the cost to the General Fund will be about \$4.5 million in FY 2009, \$6.0 million in FY 2010, \$7.5 million in FY 2011, and \$9.0 million in FY 2012. If the QTR is adjusted to account for TNT, however, the bill would have a General Fund cost of \$700,000 in FY 2009, \$700,000 in FY 2010, \$650,000 in FY 2011, and \$500,000 in FY 2012.

Local Government Impact

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

2/17/06